

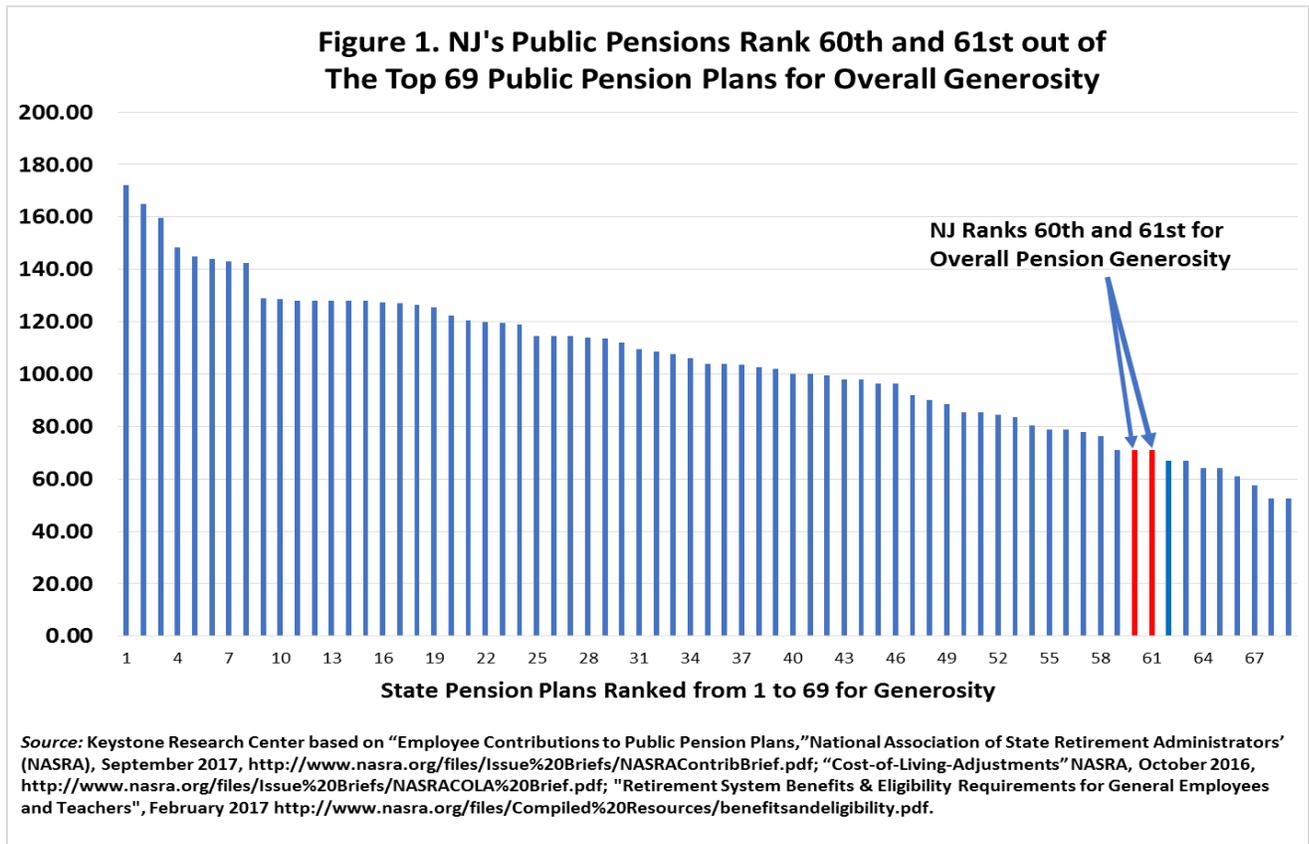
# New Jersey Public Pensions Rank Among Least Generous in the Nation

*Pensions for New Jersey Teachers and State Employees Rank in the Bottom 10 for Generosity Out of 69 Public Plans Nationally*

By Stephen Herzenberg and Jon White<sup>1</sup>

While one of the central tenets of repeated calls for major changes to New Jersey’s public pension system is the claim that public employee pensions are overly generous, retirement benefits for the state’s public workers are already among the least generous of all large public pensions in the country, in part because of cuts enacted in the pension reforms of 2011.

In fact, New Jersey’s public pensions rank 60<sup>th</sup> and 61<sup>st</sup> in pension generosity among 69 plans for school and state employees for which we have current data (Figure 1). (Table A1 lists the 69 pension plans and their “generosity score.”)



To arrive at a ranking for each plan, we measured three key dimensions of pension generosity: whether the plans offer inflation protection to retirees, how benefits are calculated, and the amount employees contribute to their own retirement plans. (For the full methodology, see Appendix A. Our comparison excludes pensions plans for uniformed personnel, such as New Jersey's Police and Fireman Retirement System, because such pension plans tend to be more generous across the board than those for state employees and teachers. This makes it possible for emergency responders in hazardous occupations to retire earlier on a decent pension.)

New Jersey gets a low ranking for overall generosity because its pensions are in the bottom half on all three of the individual measures of generosity:

- **New Jersey retirees have no automatic protection against inflation.** While 45 of the 69 largest plans offer retirees some inflation protection, cost-of-living adjustments for New Jersey retirees were suspended indefinitely by the 2011 legislative pension reforms.
- **New Jersey uses a low multiplier.** The percentage by which New Jersey calculates state pensions per year of service – known as the multiplier – is 1.81 percent. This means pension benefits equal 1.81 percent of final (average) salary multiplied by the number of years of service. New Jersey's 1.81 percent multiplier is lower than two thirds (46) of the 69 plans. New Jersey's multiplier pales in comparison to the 3.0 multiplier received by New Mexico public employees, Colorado's 2.5 multiplier in pension plans for state and school employees, and the 2.2 multiplier enjoyed by Ohio public employees.

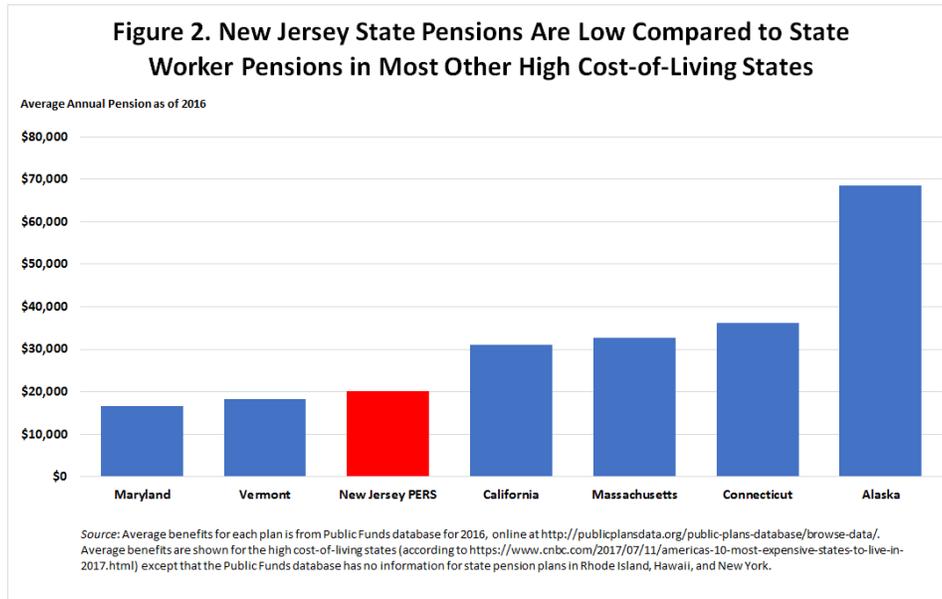
**New Jersey employees pay more into the system than those in most other systems.** As of 2019, New Jersey public employees will contribute 7.5 percent of their salaries to their own pensions, more than 37 other plans in the top 69. By contrast, Connecticut state employees contribute only 3.5 percent of their salary to their own pensions, less than half as much as New Jersey's state workers and teachers. In neighboring New York, public employees contribute 4.5 percent of their salary to their own pension

(Note: our December 2014 brief ranked the generosity of New Jersey's pensions out of the 100 largest plans for state workers and teachers.<sup>2</sup> Since the data based used in that earlier brief no longer contains the three variables relied on here, we used alternative sources with information on 69 non-public safety public pensions plan.)

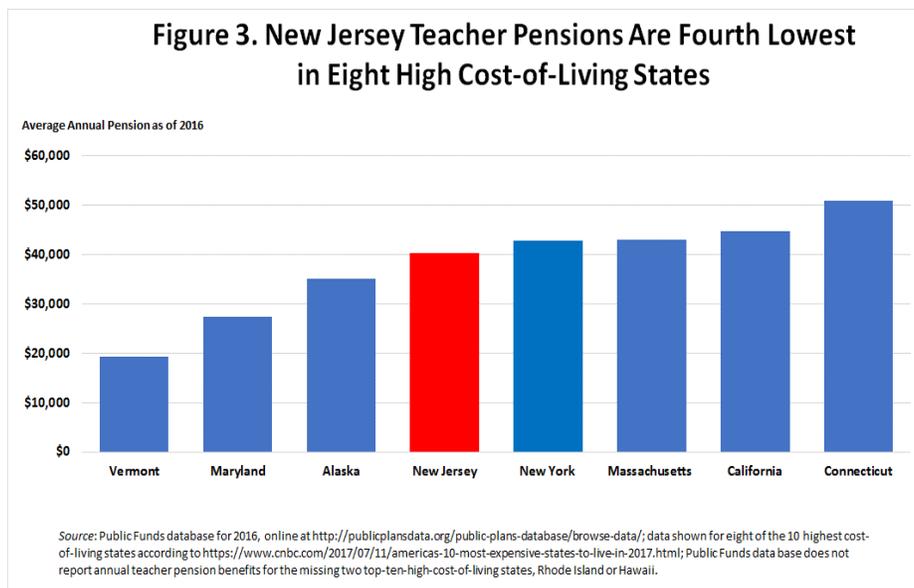
## **NJ Pensions Are Modest Compared to Others in High-Cost States**

Long after the 2011 cuts in New Jersey pensions, for example in the 2016 State of the State address, former New Jersey Governor Chris Christie continued to claim that New Jersey public employees have “gold-plated pensions.”<sup>3</sup> In fact, as we have seen, New Jersey public pensions are low relative to most other states. New Jersey public pensions are also modest in dollar amounts, especially when you take into consideration that New Jersey has a high cost of living.

Figure 2, for example, shows that average annual pension benefits from New Jersey’s Public Employee Retirement System (PERS) covering state (and local) workers equal only about \$20,000 annually.<sup>4</sup> This is third lowest out of seven high-cost-of-living states (out of the 10 highest-cost-of-living states) for which our data source has information on state pension plans, above only Maryland and Vermont.<sup>5</sup>



New Jersey’s average annual teachers’ pension benefits rank fourth lowest out of eight high cost-of-living states for which our data base has information on teachers’ pension plans, with an average annual benefit of about \$40,000 (Figure 3). Further, the average in Maryland is pulled down because it includes pensions for support staff in schools.



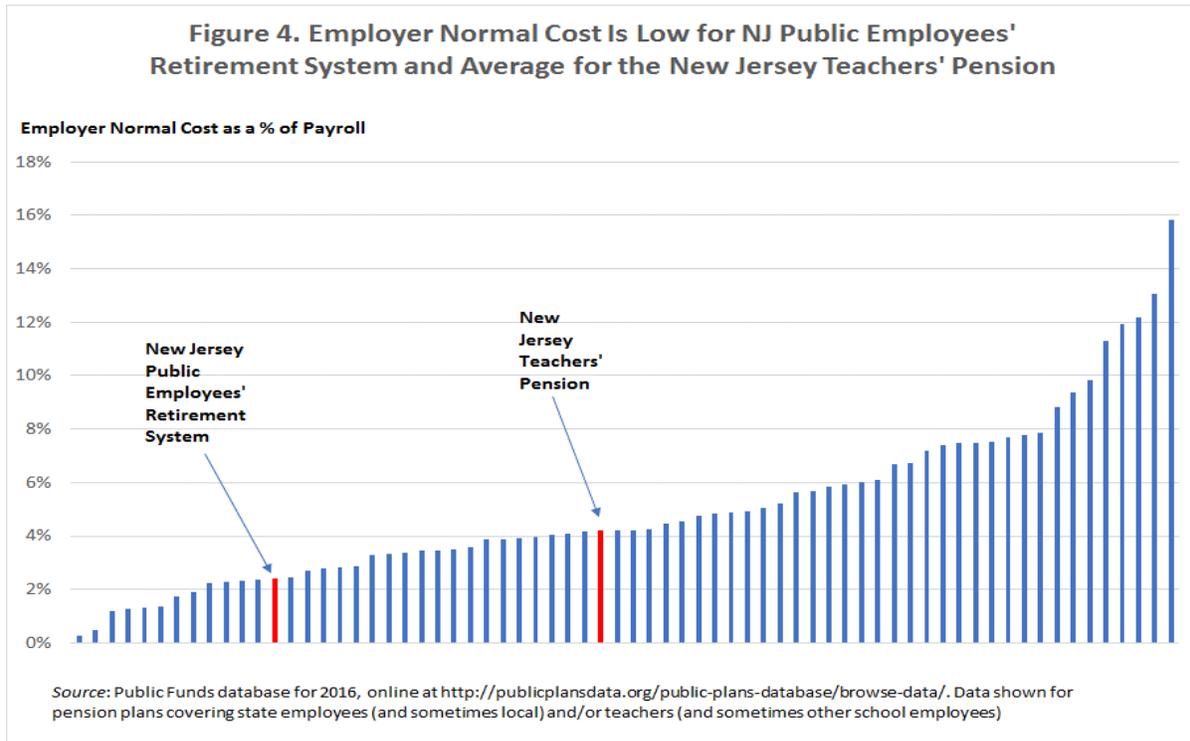
## The Taxpayer Cost of NJ Pensions Going Forward Is Already Low

The Healey pension commission in 2015 proposed “a sweeping plan” that would reduce health and pension benefits for hundreds of thousands of public workers.<sup>6</sup> Implicit in the commission’s charge was the idea that New Jersey’s pensions today are highly costly. While the “unfunded liability” accumulated because of failures to make past pension contributions is high, the cost for the pension benefits earned each year by today’s state workers and teachers is not high, in part because of the pension benefit cuts of 2011.

The standard way to evaluate the cost to employers of future pensions is based on the “employer normal cost” – the percent of payroll required to pay for additional pension benefits accrued each year (see Box 1). The New Jersey pension plan for state and local employees, PERS, has an employer normal cost of just 2.4% of payroll. The New Jersey teachers’ pension has a normal cost of 4.2%. Figure 4 shows that the New Jersey PERS employer normal cost is 13<sup>th</sup>-lowest and the teachers’ pension plan is in the middle, 35<sup>th</sup>

### **Box 1: Comparing the Normal Costs of Public Pension Plans**

As noted in the text, pension plans can be compared across states based on their “employer normal cost” – the percent of payroll required to pay for additional pension benefits accrued each year. This “bottom line” measure takes account of all three of the factors discussed at the outset of this brief, and some others factors as well (e.g., whether final salary is averaged over three or five years or the extent to which overtime pay is also included in computations of final average salary). Another advantage of employer normal cost as a gauge of the taxpayer costs of public pensions is that it excludes the cost of paying down unfunded pension liabilities accrued, in many cases, because of failures to make past pension contributions. One downside of comparing public pension normal costs across states is that normal costs are not computed in a fully consistent way across states – e.g., plans make different assumptions about rates of return. Higher assumed rates driving down the employer normal cost. Given variations in the way pension actuaries estimate employer normal costs, comparisons of normal costs across different plans are best used in conjunction with the three-factor methodology that began this brief, not as the only way of comparing plans.



## The Real Pension Problem? The State's Failure to Contribute

New Jersey's real pension problem is lack of employer contributions, not overly generous retirement benefits. New Jersey's unfunded pension liabilities have resulted from the state's persistent failure to make annual required contribution payments. Our earlier study reported that New Jersey ranked *last* among the 50 states – by a large margin – for the share of required pension contributions made from 2003-12.<sup>7</sup> An April 2017 report found that New Jersey again in 2015 ranked last for contributions made as a percentage of Annual Required Contributions (ARC).<sup>8</sup>

In sum, New Jersey's pension benefits are not more generous than most other large plans, no matter the standard of comparison. Chronic underfunding is the primary reason New Jersey has a large unfunded pension liability. Solving New Jersey's self-inflicted pension crisis requires the state to contribute its legally obligated share each year – and to dedicate funds to make up for past failures to make required contributions.

## Appendix A: Methodology

For this analysis, we examined New Jersey’s two biggest pension plans (the plans for teachers and for state/local government employees) along with 67 other largest pension plans for non-public safety personnel. For these 69 plans, the National Association of State Retirement Administrators provides data on multipliers, inflation protection, and employee contributions in the three recent briefs:

- “Employee Contributions to Public Pension Plans,” September 2017, <http://www.nasra.org/files/Issue%20Briefs/NASRAContribBrief.pdf>;
- “Cost-of-Living-Adjustments,” October 2016, <http://www.nasra.org/files/Issue%20Briefs/NASRACOLA%20Brief.pdf>;
- “Retirement System Benefits & Eligibility Requirements for General Employees and Teachers,” February 2017; <http://www.nasra.org/files/Compiled%20Resources/benefitsandeligibility.pdf>.<sup>9</sup>

To rank each pension plan’s overall generosity, we first compare the 69 plans on three separate measures of pension generosity:

- The strength of their automatic inflation protection (assuming 2 percent inflation).<sup>10</sup>
- The amount by which pensions increase with each additional year of public service as a percentage of “final average salary,” an amount commonly referred to as “the multiplier.” (Final average salary is usually calculated as the average salary over the final three or five years of an individual’s public service.)
- The amount employees contribute to their own pensions. When employees contribute less, we consider their pension more generous.

Overall generosity is determined by giving each pension plan a score out of 69 based on its rank on these three separate dimensions of pension generosity. A pension plan ranked first on one of the dimensions receives 69 points, a pension plan ranked 69<sup>th</sup> receives one point.

Adding up the three ranks generates the plan’s overall generosity score. The 1<sup>st</sup>-place-ranked and most generous pension plan received an overall score of 172. The least generous pension plan, ranked 69<sup>th</sup>, received an overall generosity score of 52.5. Thus New Jersey’s two pensions, tied with a score of 71, had an overall generosity score 101 points below the most generous plan but only 18.5 points above the least generous pension plan.

**Table A1: Generosity Score for Pension Plans Shown in Figure 1**

<i>Sum of 3 Ranks of Generosity</i>	<i>Plan Name</i>	<i>Actuarial Assets</i>
172	Arkansas PERS	\$7,769,000
165	Arkansas Teachers	\$15,239,000
159.5	Georgia Teachers	\$68,161,710
148.5	Alaska PERS	\$8,931,160
145	Colorado School	\$23,263,344
144	Colorado State	\$14,026,332
143	Florida RS	\$145,451,612
142.5	New Mexico Educational	\$11,905,959
129	Connecticut Teachers	\$16,712,300
128.5	New Mexico PERA	\$14,654,814
128	California Teachers	\$169,976,000
128	Maine State and Teacher	\$10,512,524
128	Washington PERS 2/3	\$30,262,000
128	Washington Teachers Plan 2/3	\$10,722,000
128	Washington School Employees Plan 2/3	\$4,181,000
127.5	Ohio School Employees	\$13,015,000
127	Vermont State Employees	\$1,707,268
126.5	California PERS	\$302,418,000
125.5	Mississippi PERS	\$25,185,078
122.5	New York State Teachers	\$99,301,800
120.5	NY State & Local ERS	\$156,648,000
120	Ohio Teachers	\$70,114,637
119.5	Arizona SRS	\$35,761,373
119	Minnesota Teachers	\$20,194,279
114.5	Ohio PERS	\$80,267,000
114.5	Oklahoma PERS	\$8,790,886
114.5	South Dakota RS	\$10,851,252
114	Missouri State Employees	\$8,878,057
113.5	Idaho PERS	\$13,884,200
112	Illinois SERS	\$15,632,604
109.5	DC Teachers	\$1,845,476
108.5	Texas Teachers	\$138,786,000

107.5	Connecticut SERS	\$11,922,966
106	Nevada Regular Employees	\$27,916,453
104	Illinois Universities	\$17,701,646
104	Missouri Teachers	\$35,419,278
103.5	Vermont Teachers	\$1,716,296
102.5	Minnesota State Employees	\$11,676,370
102	Iowa PERS	\$29,033,697
100	Louisiana Teachers	\$18,254,300
100	Louisiana SERS	\$11,630,800
99.5	Illinois Teachers	\$47,222,098
98	Delaware State Employees	\$8,460,614
98	Minnesota GERP	\$18,765,863
96.5	Maryland Teachers	\$29,020,809
96.5	Maryland PERS	\$16,130,438
92	Kentucky Teachers	\$17,496,894
90	North Carolina Teachers and State Employees	\$66,169,352
88.5	Hawaii ERS	\$14,998,700
85.5	North Dakota PERS	\$2,265,278
85.5	Oklahoma Teachers	\$14,577,869
84.5	Missouri PEERS	\$4,157,427
83.5	Massachusetts Teachers	\$24,593,787
80.5	Texas ERS	\$26,557,131
79	Indiana PERP	\$14,553,059
79	Indiana Teachers	\$10,874,719
78	Montana PERS	\$5,247,685
76.5	Wisconsin Retirement System	\$95,396,200
71	Alabama Teachers	\$21,740,280
71	New Jersey Pensions PERS	\$30,367,324
71	New Jersey Teachers	\$27,169,758
67	Montana Teachers	\$3,798,944
67	South Carolina RS	\$27,293,968
64	New Hampshire Retirement System	\$7,636,066
64	Wyoming Public Employees	\$7,063,052
61	Alabama ERS	\$10,589,258
57.5	Nebraska Schools	\$10,045,925
52.5	Massachusetts SERS	\$23,465,963
52.5	North Dakota Teachers	\$2,229,293

## Endnotes

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<sup>1</sup> Stephen Herzenberg, Ph.D., is an economist and the Executive Director of the Keystone Research Center. Jon White, is a public policy intern at the Keystone Research Center and candidate for a Master's Degree in Public Policy at Temple University.

<sup>2</sup> Stephen Herzenberg, "New Jersey Has Modest Public Pension Benefits," December 2014; <https://www.njpp.org/reports/new-jersey-has-modest-public-pension-benefits>

<sup>3</sup> "Governor Chris Christie's 2016 State of the State Address As Prepared for Delivery," Trenton, New Jersey, January 12, 2016

<http://www.state.nj.us/governor/news/news/552016/approved/20160112c.html>

<sup>4</sup> The source for the average benefits shown in Figures 2 and 3 is different than the source for the rankings earlier in the text. This source is: Public Funds database for 2016, online at <http://publicplansdata.org/public-plans-database/browse-data/>.

<sup>5</sup> One reason average benefits from New Jersey's Public Employee Retirement System (PERS) are low is that this average includes local as well as state employees, which is not the case for all other state worker pension plans. Average benefits for state workers alone from PERS equal \$27,501, which still ranks fifth of the seven high cost-of-living states shown. Source for average state pensions from PERS: Division of Pensions and Benefits, State of New Jersey, "Comprehensive Annual Fiscal Report for the Fiscal Year Ended June 30, 2016," p.223;

<http://www.state.nj.us/treasury/pensions/annrpts/cafr-fy2016.pdf>

<sup>6</sup> The phrase "sweeping plan" and the paraphrase about cuts in benefits comes from Samantha Marcus, "Christie pension commission recommends plan for huge savings, fewer benefits," NJ Advance Media, February 12, 2016;

[http://www.nj.com/politics/index.ssf/2016/02/christie\\_pension\\_commission\\_calls\\_for\\_public\\_worke.html](http://www.nj.com/politics/index.ssf/2016/02/christie_pension_commission_calls_for_public_worke.html). The first commission report is New Jersey Health and Pension Benefit Study

Commission, "A Roadmap to Resolution: the Report of the New Jersey Health and Pension Benefit Study Commission;"

<http://www.state.nj.us/treasury/pdf/FinalFebruaryCommissionReport.pdf>

<sup>7</sup> Stephen Herzenberg, "New Jersey Has Modest Public Pension Benefits," December 2014

<sup>8</sup> Pew Charitable Trusts, "The State Pension Funding Gap: 2015," April 2017;

<http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/04/the-state-pension-funding-gap-2015>

<sup>9</sup> In addition to excluding pension plans for public safety personnel, as noted in the text, we also excluded "hybrid pension" plans because there is no straightforward way to value the defined contribution portion of those plans for purposes of comparison with defined benefit-only plans.

<sup>10</sup> The Cleveland Fed projects inflation 30 years forward as of October 2017 at

<https://www.clevelandfed.org/our-research/indicators-and-data/inflation-expectations.aspx>; scroll time and click on the third chart.